

V.F.
TAXATION

Why the Business Tax Should Be Abolished

As Presented by
ISAAC PITBLADO, K.C.
TO
THE CITY COUNCIL OF WINNIPEG
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Retail Merchants' Association of Canada, Inc.
Offices: 211 Chambers of Commerce, Winnipeg

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PRESENT LAW: The present business tax is a substitute for the personal property tax which was in force in the City of Winnipeg up to 1893. Up to that time the City had assessed certain forms of personal property and collected taxes from the owners thereof. The idea underlying all municipal taxes of these chattels is the well-established principle recognized by political economists, that "Taxes should be paid by those who are able to pay them." On this principle, the owner of a personal estate was compelled to assist in paying for public service. It was found, however, that the tax on personal property was not working out equitably. The merchant who carried a large stock of goods and who was assessed for these goods did not, in a great many cases, own them, as he owed large amounts of money on the same. Accordingly, while the goods in the store ostensibly belonged to him, still, in reality, he only owned the surplus after he had paid his liabilities thereon. There were several difficulties in the way of valuing personal property and of collecting taxes thereon. Accordingly, the basis was adopted of charging taxes upon the premises occupied by the merchant or other persons in business.

RENTAL VALUES A BASIS. According to the present law, the occupant or tenant of property pays, as a business tax, six and two-thirds per cent. of the rental value of the property. This is a "rough and ready" method of collecting taxes from the business community, and assumes that a man is able to pay taxes in accordance with the value of the premises which he occupies. The assumption is that the person who occupies a valuable store is able to pay a larger tax to the City than a man who occupies, with his business, a smaller and less valuable piece of property. The same assumption underlies the business tax on a rental basis as was the foundation of the tax on personal property, namely: that it was a fair measure of the ability of the person taxed to contribute to the public weal. When the "business tax" was adopted, the personal property tax was at once done away with.

The present tax is based, not upon the rental actually paid, but upon the rental value. In most cases, the rent paid is the basis, but not always. When rental values are on the increase, many tenants who have long lease terms are required to pay the business tax on the rental value much in excess of the actual rent which they are paying.

Where an owner occupies his own buildings, there being no rent actually paid by which the assessor may be guided, the assessor, of course, knows what he thinks the premises are worth from a rental standpoint. The Retail Merchants believe that many owners of properties, particularly owners of the large departmental stores, are paying very much less in taxes, from a comparative standpoint, than a large number of other Retail Merchants who are occupying their own premises.

PRESENT SYSTEM UNFAIR TO RETAILER

The Retail Merchants feel that, under the present system, they, as a class, pay too large a share of the public burden as compared with other businesses, professions or callings. The retail dealers, as a class, are compelled to occupy stores on the most valuable property in the city. The Retail Merchant who, through force of circumstances,

leaves the main thoroughfare, is in the long run forced to the wall (except certain businesses such as grocery stores, etc., which may be found in outlying districts). The Retail Merchants, therefore, pay the highest rent but do not by any means make the largest incomes; nor are they by any means the wealthiest class in the community. If the theory of the political economists is correct, the tax should be collected from those able to pay. The retail dealers, as a class, are much less able to pay than other lines of business. It has been estimated that eighty per cent. of all Retail Merchants fail in business some time during their career, and you seldom find a Retail Merchant who has become wealthy in that line of business.

TAX AS PAID BY RETAILERS, OTHER BUSINESSES AND PROFESSIONS UNEQUAL. A study of the taxes paid by Retail Merchants, as compared with those paid by other businesses and professions, numerous examples of which I have submitted to Council, shows conclusively that the business tax is most unfair to the Retail Merchants.

The Retail Merchants feel that there is something radically wrong with a system of taxation which requires a merchant doing business which nets him \$1,500 to \$3,000 a year to pay as large a business tax as a merchant, professional man, or firm of professional men earning many times that amount per year as an income.

PRESENT TAX WRONG IN PRINCIPLE

The present business tax is wrong in principle for the following reasons:—

(1) **RETAILER MAKES CITY ATTRACTIVE.** Because it taxes the industry of the community. It puts a penalty on the merchant for doing business. The Retail Merchants feel that they do more to make the business streets of the city attractive than any other class of persons. The more attractive they make their premises, as a rule, the higher their rentals, and the higher their rentals, the more taxes they pay.

(2) **HIGH RENT MEANS HEAVY TAX.** Because the higher the rental paid by the unfortunate

Retail Merchant for his store, the higher automatically becomes his tax. We have had, in the City of Winnipeg, rents increasing until they reached an almost unbearable amount, and yet the high rent was not all the burden, but in addition the retailer, by the very fact of his rent increasing, became liable also to pay an increasing tax.

(3) **LANDLORD HELPS FIX TAX.** Because the business tax is practically a tax fixed by the landlord or his agent, through keen competition for premises on the leading streets.

(4) Because great discrepancies exist in the amount of business taxes payable by competitors in the same business; and these discrepancies exist both between retailers themselves and between retailers and people in other businesses and professions. It is impossible to adjust the business tax so as to fall equitably on all lines of business and professions.

(5) **NOT SCIENTIFIC.** Because it is not in any way a scientific method of tax making. It is nothing more or less than a "rule of thumb" method of getting over the difficulty of taxing personal property or income. It is like estimating the financial worth of a man by the clothes he wears. You estimate the income of the Retail Merchant by the premises he occupies. The business tax does not reach, in any way, many people in the community who ought to pay taxes more than the retail man, such as the investor or salaried man, but it does, very unjustly, fall on the people whom it at present reaches.

The business tax is not only wrong in principle, and unscientific and haphazard in application, but there are many difficulties in the way of the present system.

(a) **AMOUNT OF REVENUE VARIES.** The revenue of the City from the business tax is not fixed or certain, but is variable. The tax will vary year by year if the rental values vary. If the rentals go down, the revenue of the City goes down. If offices become vacant, the City loses entirely the revenue derived from business taxes

thereon. The fluctuating character of the revenue from the business tax will be especially noticeable this year. According to a statement of the Assessment Commissioner, during 1914 the business tax of the City of Winnipeg amounted to \$438,000. A recent report indicated that the total business tax this year would be \$381,000. In the year 1914 the uncollectible business tax amounted to about \$25,000, and it is confidently predicted that the uncollectible business taxes for this year will be very large.

(b) There is a difficulty in collecting the business tax, especially where a man has only been in business for a certain portion of the year. The members of the City Council know that applications are being made constantly for rebates on business taxes by reason of the fact that the premises have only been occupied for certain months.

PRESENT CONDITIONS REVEAL WEAKNESS OF TAX. Again, there is the difficulty of assessing all businesses concerned. By reason of the business condition of the country, and especially by reason of the war, the Retail Merchant is at a very great disadvantage. These considerations simply tend to show the unfairness of the state of affairs, which has always existed but is now accentuated by present conditions. During the period of easy money and speculation the Retail Merchant may be able to exist, notwithstanding the unfairness of the business tax; but, when business conditions become normal or below normal, it can readily be seen how unfair this tax bears upon the retail man. Anyone who has walked along the City streets during the past few months must have been distressed by the large number of Retail Merchants apparently suffering from adverse business conditions. The retail men have been, and are, struggling to exist; and yet, notwithstanding this struggle, they are taxed proportionately higher than any other class in the community.

LANDLORD'S BEST CUSTOMER IS RETAILER. While competition among merchants causes lower prices to the consumer, this competition as a rule brings higher rentals to the landlord (David Lloyd

George, p. 131, Budget). He also profits from the goodwill produced by the industry and ability of his tenant, who pays to his landlord his taxes when he pays his rent.

TURNOVER AND PROFITS OF DEPARTMENTAL STORES. While, prior to the entry of large departmental stores, the business of Retail Merchants increased in proportion to the population, since the departmental store has become a fixture in the community, the business of the ordinary Retail Merchant has not as a rule increased. The smaller man has had to specialize and compete with the cut prices and slaughter sales which from time to time are put in force. At the same time, as a rule, the taxes of the retail man have been increasing with his rental. The ordinary Retail Merchant is working to-day under a double disadvantage of competing with the larger establishments, carrying many lines and operating many departments, and also of paying a large tax to the City, no matter what his revenue, turnover or profits may be.

CHARITY CALLS. The Retail Merchant, by virtue of his position upon the business streets of the City, is called upon to contribute yearly far more to the charities of the City for which collectors go about our streets, than any other class in the community. This in itself is a large tax upon the Retail Merchant for the public goodwill. The Retail Merchant is, in a sense, compelled to contribute, otherwise he will offend a number of his customers.

CITY COUNCIL HAS THE FACTS

As the Committee on Legislation of the City Council has recommended that the business tax should not be abolished entirely at present, we submit for the consideration of the City Council the Ontario Assessment Act, and other suggestions, to remedy the present system in Winnipeg.

ONTARIO ASSESSMENT ACT

In so far as the business tax in the Province of Ontario is concerned, it has been recognized that

the Retail Merchants are taxed on a different basis of taxation than any other business, profession or calling. In the Province of Ontario, every person occupying or using land for the purposes of business is assessed for the same, to be called "business assessment." This assessment is computed in the following way:—The person occupying the property is assessed for the property occupied by him as if he were the owner thereof, but there is a difference in the amount of the assessment for the different trades, callings or professions, as follows:

(a) A distiller is assessed for a sum equal to one hundred and fifty per cent. of the assessed value of the premises occupied by him.

(b) A brewer for a sum equal to seventy-five per cent.

(c) A wholesale merchant, insurance company, loan company, etc., for a sum equal to seventy-five per cent.

(d) A manufacturer for a sum equal to sixty per cent.

(e) A departmental store dealing in more than five branches for a sum equal to fifty per cent.

(f) Barristers, solicitors, and many other smaller professions, for a sum equal to fifty per cent.

(g) Retail Merchants in the cities over 50,000 for a sum equal to twenty-five per cent.

(There are other businesses mentioned in the statute, but the class of Retail Merchants is the lowest of all; and the above is not a complete summary of the Ontario Act, but is an illustration of the different basis applied for the Retail Merchants.)

WHAT MR. JAMES FORMAN SAYS:

Mr. James Forman, Assessment Commissioner of Toronto, in the year 1906 read a paper before the International Conference of The International Tax Association. His paper was called "Business Assessment as a Substitute for Personal Property Tax." After explaining the Ontario statute, he

goes on to discuss the reason why some businesses are rated at twenty-five per cent., some at fifty per cent., some at sixty per cent., and so on up to one hundred and fifty per cent., and has the following to say in regard to Retail Merchants:—

"There are also other reasons for this discrimination in the ratings, particularly, perhaps, in Toronto. Take the lowest, twenty-five per cent., as applied to Retail Merchants. Necessarily they are found on our leading thoroughfares, and in the more congested parts of the city where land values are at the highest and rents are at the highest. Many here have to be satisfied with a moderate frontage and rely for their profits on the frequent turnover. Many of these premises are rented under leases which call for the payment of all municipal taxes, including local improvement rates. Land values here are and have been of rapid increase, and each \$100 or \$200 per foot increase means an additional \$25 or \$50 per foot on the business assessment, this being the result of the business assessment as applied to Retail Merchants, and, of course, applies throughout the city wherever land increases have been made and business carried on.

"In the case of wholesale merchants, land values do not reach the figure of the lands occupied by the retailer, and are more normal in value. It is not necessary for him to occupy the congested districts. He has very large capital invested, and his rating of seventy-five per cent. on the value of his premises will, as a rule, be favorable to him as compared with taxes leviable on personal property.

"The rating of a manufacturer is sixty per cent. Generally speaking, he has large capital invested in machinery and plant, which are exempt from assessment. His premises do not demand anything in the way of special architecture, hence his premises are economically constructed, but on the lines of solidity. In some branches of manufacture the buildings are even lightly constructed. It is not necessary that he be centrally situated, so his land is lower in value.

"Such reasons were considered in fixing the different ratings. That they may be disturbed re-

mains to be seen. Experience will point out the weaknesses. It may be that time and public opinion will exert their influence in fixing a flat rate, or it may be that the business assessment by slow graduations will entirely disappear, leaving the real estate to bear the burden."

In considering the Ontario legislation, it must be remembered that once the assessment value is arrived at on the basis set out in the statute, then the usual municipal tax rate for the year is charged upon that valuation and is the tax payable as a business assessment.

It must be remembered that the Province of Ontario is one of the oldest provinces, and has had the longest and greatest experience of any of the provinces in so far as the collection of taxes is concerned. The arguments which appealed to the legislators of the Province of Ontario should appeal to the Council of this City, and the fact that the Province of Ontario is recognized as occupying a peculiar position with respect to Retail Merchants should be of great weight in so far as the business tax in this community is concerned.

Especially is this true in view of the fact that it is well known that rental values in the City of Winnipeg for premises occupied by Retail Merchants are probably higher than they are in the City of Toronto.

The system in Ontario is working very well. There are practically no complaints from the businesses and professions rated other than retailers. Some merchants consider that the rating of twenty-five per cent. is still too high.

ARE BENEFITS RECEIVED A BASIS OF TAXATION?

At one meeting of the Committee it was suggested that the proper basis of taxation was not ability to pay but benefits received. A reference to all books on political economy indicates that the principle of benefits received is a basis of taxation only to be applied to matters such as license fees, where the person paying the tax and getting the license is put on exactly the same footing as an-

other person who received a similar license. The basis of benefits received has never been applied as a basis of a system for general taxation. The system of benefits received is also applicable to users of water, light, and other civic commodities which are sold by the City and for which a man pays for the benefit that he gets in proportion as he uses it. If taxation is to be based upon benefits received, apply it, for instance, to our school taxes. A bachelor may own a very large piece of property in the City of Winnipeg, and he is assessed a large amount for school taxes on his property. He gets no benefits at all. On the other hand, a man who owns no property sends several children to the public schools and receives great benefits from them but pays no taxes to the community other than in the rent he pays. Is taxation in this instance based upon benefits received? It is recognized as the duty of the community to provide, for the public, general benefits, irrespective of particular benefits received by individuals, such as schools, hospitals, police and other general public services relating to the community as a whole. The tax for these general services is collected not on any basis of "benefits received," but on a basis of ability to pay.

WHAT REMEDY OR REMEDIES ARE PROPOSED?

(1) **ABOLISH ENTIRELY.** Abolish the business tax and raise the amount by general taxes on real property. What would this mean? In 1914, with \$438,000 of a business tax, it would only mean the addition of 1.55 mills to the present rate. This year the additional rate would be very much less. The assessment rate in 1914 was 14.8 mills on the dollar. With the business tax all put on the real estate the total rate for 1914 would have been 16.35 mills. The rate on the general assessment for 1915 is 14 mills. With the business tax, amounting to \$381,000, included in the general taxes, the rate for 1915 would have been 15.32 mills. In view of the fact that buildings are assessed only at two-thirds of their value, this additional rate would fall more largely on the land. A comparison of the rate of taxation in other cities in Canada will

show that the rate in Winnipeg is lower than in many other cities. The following are the tax rates for 1914:—

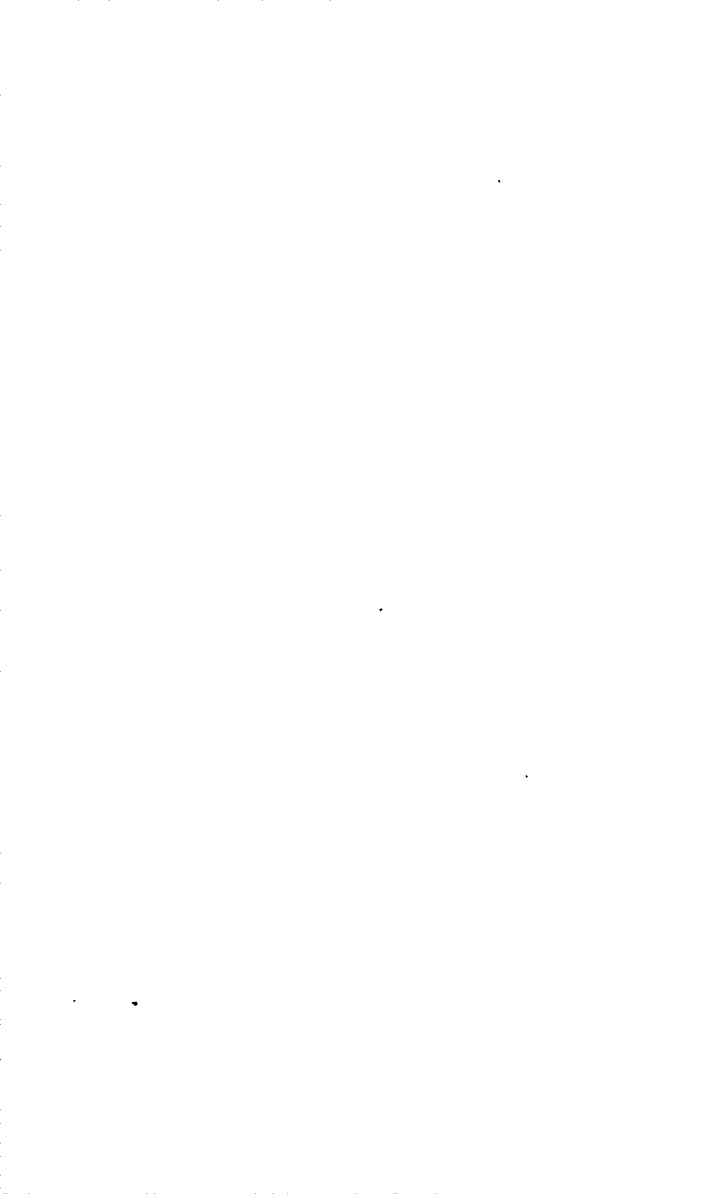
Toronto	19.25	mills
Hamilton	20.00	"
Ottawa	20.80	" (Public schools)
"	25.40	" (Separate ")
Guelph	24.80	"
Quebec	17.00	"
Montreal	15.00	"
Vancouver	24.44	"
Calgary	20.75	"
Edmonton	17.00	"
Saskatoon	17.55	"

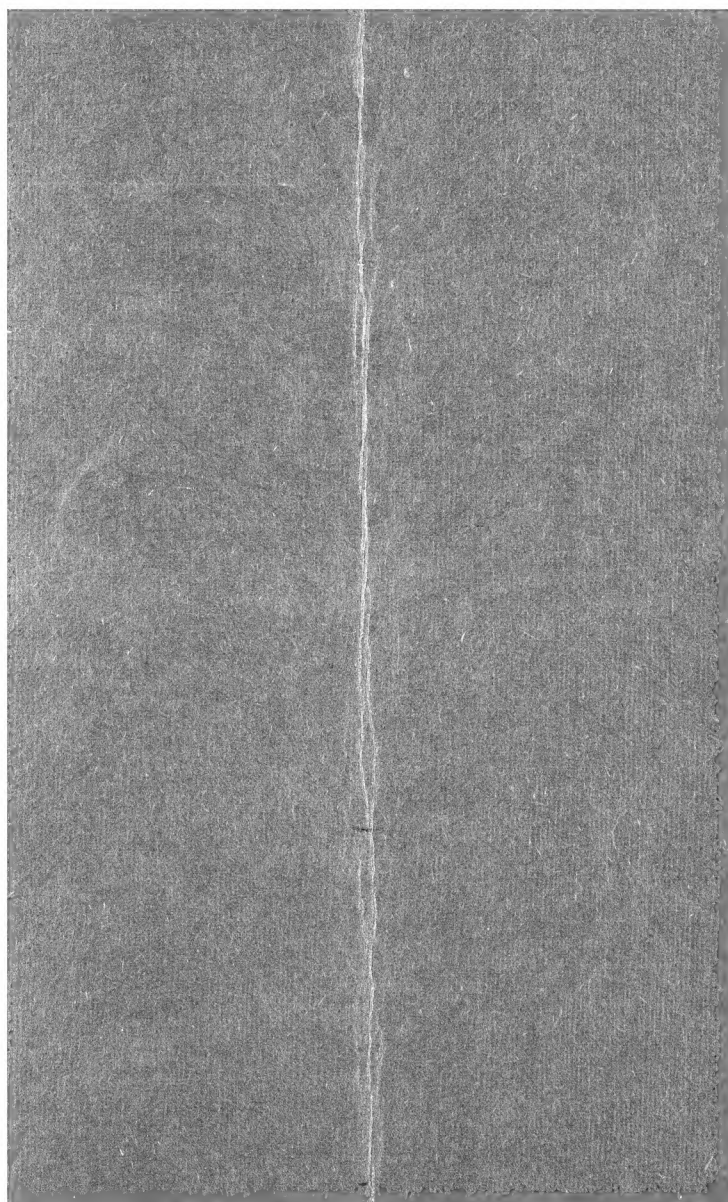
It will be noted that even if the business tax of 1914 had all been put upon the realty the rate of taxation in Winnipeg would have been much lower than that of Toronto. With the business tax added this year the rate would have been 15.32 mills in Winnipeg, while the rate in Toronto is 23 mills.

(2) **REMOVE GRADUALLY.** Abolish the business tax by striking off twenty-five per cent. each year until the whole tax is removed.

(3) **INCOME TAX.** We believe this to be the true method of taxation. It is a method that has been adopted by the Chancellor of the Exchequer in England for the raising of the necessary taxes required there, and is a true method of getting at the men who are able to pay. The objection of the income tax is the difficulty of collection. It is, however, unjust to the Retail Merchants that the business tax should be collected and perpetuated simply because there are difficulties in working out a proper system of taxation.

(4) **USE PERCENTAGES IN ONTARIO SYSTEM.** If the Council do not deem it wise to abolish the business tax and place the tax on real property, or put in force an income tax, in any event adopt legislation to relieve the inequalities of the present system by applying a sliding scale to the present basis (rental values), similar to the sliding scale now in force in Ontario.





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